

DFA Reviews 1998 Achievements, Activities

KANSAS CITY, Mo. — In a message outlining accomplishments of 1998, Dairy Farmers of America (DFA) President and Chief Executive Officer Gary Hanman told an audience of 1,700 members and guests that DFA members can be proud of what they have accomplished by working together in 1998.

Noting that 1998 was a year of record milk prices and a period of restructuring and change for the cooperative, Hanman said the year was challenging, but rewarding for the cooperative and its members.

He noted that the year opened with the Basic Formula Price (BFP) at \$13.25 per hundredweight (cwt.) and ended at a record high BFP of \$17.34 per cwt. The average BFP for 1998 was \$14.20 per cwt.

In his report to members Hanman recounted accomplishments.

Achieved targeted earnings. "We set a goal of earning \$70 million on total sales of \$7 billion in 1998," said Hanman. "DFA completed the year with sales of \$7.3 billion and a net margin of \$70 million. DFA's joint ventures performed very well, returning \$41 million to the bottom line. Manufacturing operations also had a good year, posting better than anticipated results."

Consolidated and restructured manufacturing operations. According to Hanman, one of the first tasks undertaken

by management after the consolidation was a thorough analysis of DFA's total milk supply and manufacturing operations.

"We concluded that there was not enough milk to operate all consolidated facilities efficiently and economically," he said. "We had to make some difficult decisions, but based on that analysis, we closed 12 plants. Most of the costs associated with closing and selling those plants were expensed to 1998. DFA continues to operate 33 manufacturing plants, several of which were identified for growth and expansion."

Merged and restructured the work force. Another area that received considerable attention during the past year, according to Hanman, was internal operations.

"We restructured to reduce staff positions by nearly 25 percent," he said. These reductions, as well as other restructuring efficiencies within DFA, it is estimated will save about \$60 million per year. In addition to reducing the number of employee positions, four corporate offices were closed and the corporate headquarters was located in leased space in Kansas City, Missouri.

Created a business alliance with Leprino Foods. Finalized in October, an agreement with Leprino Foods allows dairy farmers to join hands with one of the nation's largest pizza cheese suppliers. Included in

this business venture was the sale to Leprino Foods of five DFA plants that make Mozzarella cheese for the fast food industry (Juda, Wisconsin, Hartington, Ravenna, Dodge and Norfolk, Nebraska). "A key part of the agreement," says Hanman, "is a contract for DFA to supply milk to Leprino Foods."

Continued to expand DFA joint venture bottling operations. An important element in DFA's market strategy has been the acquisition of joint venture partners in the bottling business. In 1998, DFA added new partners to its list of bottling joint ventures.

"In December, we completed our joint venture negotiations with Suiza Foods Corporation," explained Hanman. "This new venture significantly expands DFA's participation in the Northeastern fluid milk market. In addition, DFA added two other joint ventures — Washington-based Wilcox Dairy Farms and Melody Farms of Michigan. As these ventures expand in their markets, we anticipate new opportunities for DFA members," said Hanman.

Completed merger with Cal Gold. In December 1998, DFA completed its first merger since the consolidation of four cooperatives that created the new organization. "The merger with California Gold Cooperative Creamery added 330 members, producing 2.5 bil-

lion pounds of milk annually," explained Hanman. In addition, the merger nearly doubled DFA's milk volume in California and Cal Gold's manufacturing plants strengthen DFA's manufacturing capacity on the West Coast.

Developed a marketing strategy for Borden Cheese. "The nationally recognized and highly respected Borden brand allows DFA to broaden its retail cheese business," said Hanman. "In 1998, DFA focused on strengthening current markets and initiated a branded marketing strategy. These new initiatives will expand product lines and market penetration for Borden cheese."

Successfully pursued political initiatives. According to Hanman, DFA played an active role in securing approval of legislation enabling extension of the Northeast Dairy Compact and Federal Milk Market Order reform. In addition, DFA actively pushed for the \$200 million dairy market loss payment, as well as income averaging and additional allowances for health insurance tax deductions for all farmers. "DFA's success in these issues was due in large part, to

our ability to speak with a unified voice," he said.

Concluding his remarks, Hanman said DFA had accomplished most of the goals it set out at the beginning of the year.

"By forming DFA, dairy farmers have an organization of the size, scale and level of performance necessary to compete and win in a market increasingly dominated by large scale competitors and customers," he said.

"At the end of the first year of operation DFA has a strong base of membership supported by a workforce of dedicated employees. Furthermore, DFA has the resources to support its customers with a commitment to service and quality backed by years of experience in milk procurement and dairy product manufacturing. All this combines to provide opportunities for dairy farmers to earn a larger share of the consumer dollar. As DFA continues its evolution," he added.

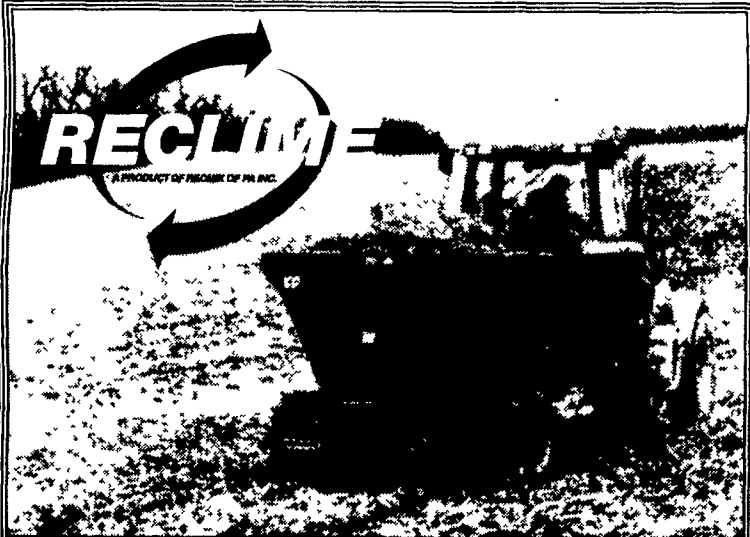
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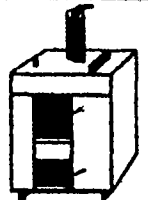
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